



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

TAXES ON PROPERTY AND PROPERTY INCREMENTS IN ITALY

SUMMARY

I. Introductory; the plan of September, 1919. — II. The tax on increments of property, 112. — Scale of rates, 114. — III. The tax on property, as proposed in November, 1919, 119. — IV. The tax on property in its present form; general characteristics, 120. — Scale of rates, 122. — In essentials, an extraordinary levy, 123. — Exemptions, 126. — Valuation; real property, 128. — Business, 129. — Securities, 129. — Allowance for debts, 131. — Presumptive valuations, 135. — Penalties, 137. — Conclusion, 138.

I. INTRODUCTORY

FOR an understanding of Italy's tax program it is necessary to know something of the preliminary stages of the measures finally enacted. By a decree of the Ministry of Finance (July 29, 1919, No. 7532) a commission¹ was appointed to present to the government a plan for an extraordinary tax on property. The only limitations laid down by the government were that the smaller properties were to be exempt and the tax was to weigh more heavily on properties formed and increased in consequence of the war. In August the commission held some ten sessions and reached certain conclusions which a sub-committee was instructed to formulate into a projected law. Toward the end of September the sub-committee presented its plan, which contained two important features: one, an obligatory or forced loan; the other, a tax on the increases of property during the war.

¹ Of this commission the writer of the present article was a member. — *Editors.*

According to the provisions of the proposed forced loan all taxpayers possessing property in excess of 20,000 lire were to make loans to the state. These loans increased progressively as the amount of the property increased. Five per cent of the amount possessed was allotted to properties of 20,000 lire, the percentage increasing until 40 per cent was demanded from those of 100,000,000 lire or more. In return for this compulsory payment the contributor was to receive an equivalent in tax free bonds bearing interest at 1 per cent a year and redeemable within a period of seventy years, beginning January 1, 1920.

The present value of the securities offered, taking the standard of interest of 5 per cent as a basis, was one-third of the face value, i. e., the burden of the tax was about 67 lire for every 100 lire paid. However, the taxpayer was given the option of either contributing the full amount of the assessment and receiving in return the 1 per cent certificates or paying 66.66 per cent of the assessment, once for all, with no promise of reimbursement. Clearly, the forced loan was merely a matter of form. Actually, the plan provided for an extraordinary tax on property equal to two-thirds of the declared rates, while, if the taxpayer were so inclined, he might subscribe voluntarily to the remaining one-third.

The second part of the proposal called for a tax upon the increases of property in excess of 20,000 lire, which had appeared during the war period. To secure ease of administration, such increases were considered equal to the war profits obtained between August 1, 1914 and December 31, 1919. The tax was to apply not only to the profits derived from manufactures, commerce, and brokerage business — incomes which had been subject to the war profits tax — but to increased income from other sources such as the professions, cultivation of land

by the owner and the like, which had not been subject to the war tax. Only the excess beyond ordinary income was to be considered a taxable increase, and in no case was the increase to be taxed unless it amounted to 20,000 lire. Provision was made for numerous exemptions, and detailed rules were given for the calculation of war profits. Upon the increases finally ascertained the same schedule of rates was to apply that held in the extraordinary tax on property — 5 per cent to 40 per cent for increases ranging from 20,000 lire to 100,000,000 lire.

The two taxes were not exclusive. One who had accumulated a fortune during the war period would be subject both to the tax on property and the tax on the increase of property.

Both of the taxes were due on January 1, 1920, but provision was made for payment in installments. The forced loan might be met by from 4 to 8 annual payments, the larger number being governed by the proportion real estate bore to the entire property. In very exceptional cases payment might be extended over 12 annual installments. The tax on the increase of property could be paid in 3 annual installments. In both cases simple interest at 5 per cent a year was required. The relatively short period over which the two taxes were distributed gave them the appearance of a levy on capital.

A number of methods were presented to secure complete valuations. Taxpayers were required to declare, under oath, their entire property and, in addition, the Finance Department was given the right to fix a presumptive value, based on external indications such as the amount of house rent, the number of servants, the possession of jewels and so on. Authority was provided for the official valuation of land and buildings. But the

characteristic feature of the plan was the method adopted to ensure the full declaration of bearer certificates. These securities promised to be a serious stumbling block because of the ease with which they could be concealed. It was proposed that they should be taxed at the highest rate, 40 per cent, irrespective of the fortune of the taxpayers. In this way, it was thought, a method had been found which would induce the transfer of such securities to the registered form. If the transfer were made, only that rate would be exacted, presumably less than 40 per cent, which was applicable to the property really possessed. This discriminating rate was to be collected from the body issuing the securities, the province, commune or company recouping itself from the owner.

By the end of September, 1919, the main features of the plan were generally known to the public. Great opposition was shown, founded especially on the disturbance which the taxes would cause in dealings in transferable securities, and on the difficulties which owners of land and buildings would encounter if obliged to resort to forced sales. The 40 per cent tax on bearer certificates, to be collected from the issuing body also aroused fears, altho perhaps not well founded. Finally, the financial authorities faced a difficult problem in the administration of the tax on the increase of property in determining and verifying the incomes declared by those not reached by the tax on war profits, especially for the earlier years of the war.

For these reasons the government decided to split the original plan into four parts; each independent of the others. (1) A decree of November 24, 1919, No. 2168, ordered the issuing of a voluntary loan at 5 per cent at the price of 87.50 lire. This loan had great success. While the first war loan (1915, 4½ per cent) had furnished the

state the sum of 1,000,000,000 lire, the second (1915, 4½ per cent) the sum of 1,145,900,000 lire, the third (1916, 5 per cent) 3,018,100,000 lire, the fourth (1917, 5 per cent) 3,798,500,000 lire, the fifth (1918, 5 per cent) 6,089,100,000 lire, the sixth brought in 20,000,000,000 lire, or more than all the other five combined.

(2) An extraordinary tax on property, regulated by the decree of November 24, 1919.

(3) A tax on the increase of property obtained on account of the war, regulated by the decree of November 24, 1919.

(4) An extraordinary tax on dividends, interest, or premiums paid on bearer certificates, regulated by the decree November 24, 1919.

It may be as well to say at once that the second, third and fourth of these provisions have been superseded recently by new decrees, dated April 22, 1920. The decrees of April 22, 1920 made important modifications in the decrees of November 24, 1919, and was, in a measure, a return to the original plan of September, 1919.

II. THE TAX ON INCREMENTS OF PROPERTY

The provisions of the decrees of April 22, 1920 are in force today. But it is worth while to indicate the fundamental ideas that inspired the legislator in those of November 24, 1919, and especially the points where the later decrees differ from the original plan of September, 1919, and from the decrees of April 22, 1920, which have taken their place. I shall begin by explaining in a few words the tax on the increases of property, which on the whole preserves the original form even after the modifying decree of April 22.

The plan of September, 1919 had given up, as a desperate undertaking, the idea of finding the difference

between the two properties in existence on August 1, 1914, and December 31, 1919, but it ordered that an account should be made of the profits obtained beyond the ordinary income on the two dates, not only by manufacturers, business men, brokers, already subjected to the tax on excessive war profits, but also those obtained by land owners who cultivated their own land, and by professional men. These two undertakings, however, seemed to the Financial Administration too difficult to be carried out after so great an interval of time, when it would be difficult to secure proof regarding the earnings. The result was that the decree of November 24, 1919 regarded as an increase of property, the excess profits obtained by business men, manufacturers and brokers; those excess profits, namely, already subject to the tax on war profits which in Italy was established in 1915, as was done in almost all the other belligerent states. Consequently the tax on increases of property amounts to nothing more than a surtax upon those excesses of income which had already been subjected to the tax on war profits. The task of the Financial Administration was thus simplified, in as much as the information already obtained for the purpose of fixing the tax on war profits is used without modification for the new tax on increases of property. All that has to be done is to take the amount of the excess of income already ascertained in the course of the taxation of war profits, to subtract from it the tax and surtax already paid on war profits, all other taxes and public burdens that had not been taken out before, and the amounts which the taxpayer can show that he has used for charities, for civic benefits, education and other works of a public character. What is left over is the taxable increase of property.

Occasionally some addition can be made to this when,

in the case of any taxpayer, the Financial Administration discovers that his property has been increased after August 1, 1914, by the acquisition of lands, houses, securities or other property, and there is reason to infer that this increase is derived from earnings obtained through manufactures, business or brokerage. The increase of property thus ascertained is not taxable till it reaches the sum of 20,000 lire, or such larger sum as is equivalent to 5 per cent of the original property of the taxpayer; the original property is regarded as that which, for the purpose of imposing the tax on war profits had been regarded as capital invested for the first period of verification, 1914-15. If the taxpayer in that first period was not engaged in manufactures, or business, or brokerage, the amount of invested capital ascertained at the following verification is regarded as original property.

The excess beyond 20,000 lire, or beyond the larger figure equal to 5 per cent of the original property, constitutes the taxable increase of property. For manufacturers and business men the increase was taxable, according to the decree of November 24, 1919, on a scale ranging from 10 to 60 per cent. The decree of April 22, 1920, increased the rates from 10 to 80 per cent on the following scale:

10%	{ on the portion of }	{ 5 but not ex- }	{ of the property }
	increase exceeding	ceeding 10%	of the taxpayer
20%	" "	10 " "	20% " " "
30%	" "	20 " "	30% " " "
40%	" "	30 " "	40% " " "
50%	" "	40 " "	50% " " "
60%	" "	50 " "	60% " " "
70%	" "	60 " "	70% " " "
80%	" "	70%	" " "

The increases of property obtained by brokers could not be estimated by comparing them with an original

property, because in the greater number of cases brokers need no capital to carry on their business. Consequently that increase is exempt which, in the sum total of the years between August 1, 1914 and December 31, 1919, does not exceed 20,000 lire, or the larger sum equal to $\frac{5}{10}$ of the ordinary income secured by the broker before the war. The rest is considered taxable increase of property, and to it, according to the decree of November 24, 1919, was applicable a progressive scale of from 10 to 60 per cent. The decree of April 22, 1920, increased for brokers the maximum of the rates to 80 per cent as follows:

10% { on the amount of increase exceeding }		5/10ths but not 10/10ths		{ of ordinary income	
20%	" "	10/10	" "	20/10	" "
30%	" "	20/10	" "	30/10	" "
40%	" "	30/10	" "	40/10	" "
50%	" "	40/10	" "	50/10	" "
60%	" "	50/10	" "	60/10	" "
70%	" "	60/10	" "	70/10	" "
80%	" "	70/10	" "	70/10	" "

By way of example, let us suppose a manufacturer who had in the first period an invested capital of 1,500,000 lire. This is regarded as his original property. According to the law on the taxation of war profits, the ordinary income on the capital invested is set at 8 per cent, which in this case makes 120,000 lire a year. Let us suppose that he earned in the period 1914-15, 250,000 lire; in 1916, 200,000 lire; in 1917, 320,000 lire; in 1918, 340,000 lire; in 1919, 440,000 lire; for the whole period of the war the manufacturer earned a total of 1,750,000 lire. From this sum we must subtract the ordinary return of 8 per cent on the invested capital, namely, 170,000 lire for the seventeen months of the first period, and 120,000 lire for each of the subsequent periods; 650,000 lire in all. This is the income which is

subject to the ordinary tax, that on personal property; a tax which during the war kept increasing from 12 per cent to nearly 20 per cent. The remaining sum of 1,100,000 lire constitutes what, in our statutory language, is war profits.

These profits were in any event subject to the tax on war profits, established as early as 1915, and arranged on a progressive scale, from 10 to 60 per cent. In order not to complicate the account too much let us suppose that this tax and the tax on personal property deprived the taxpayer of a third of the sum just mentioned. The taxpayer has therefore paid already 366,000 lire in taxes; there remain 733,000 lire. From this we may subtract say 33,000 lire, which the taxpayer may have proved he spent in benevolences, civic benefits, education and other public objects during the period of the war. The remainder, 700,000 lire, constitutes finally the taxable increase of property.

According to the decree of April 22, 1920, this increase of 700,000 lire is divided into the following fractions:

The first fraction of 5 per cent on the original property of 1,500,000 lire, namely 75,000 lire, is exempt from taxation. On the next

5%	amounting to	75,000	the tax is	10%, equal to	7,500
10%	"	" 75,000	" " "	20%	" 15,000
10%	"	" 75,000	" " "	30%	" 22,500
10%	"	" 75,000	" " "	40%	" 30,000
10%	"	" 75,000	" " "	50%	" 37,500
10%	"	" 75,000	" " "	60%	" 45,000
10%	"	" 75,000	" " "	70%	" 52,500
for the remainder					
amounting to		100,000	" " "	80%	" 80,000

Total 290,000 lire

In all therefore the taxpayer pays a tax of 290,000 lire on the 700,000 lire of increase of property.

This example may be considered as an average between the lighter and the heavier burdens of taxation which result from the method adopted.

The tendency of the whole arrangement obviously is to call on the taxpayer the more heavily if his invested capital is small, and more lightly, when the capital invested is large. This brings about the injustice, observable in the legislation of other countries also: enterprises depending above all on the energy and enterprise of the individual manufacturers and business men are overtaxed, while those which at the beginning had a large investment in the plant, and which before the war obtained mediocre results or were even losing money in relation to this large capital, are undertaxed. We may add that while, in the Italian tax on war profits, every transaction is considered by itself, and consequently the percentage of taxation tends to become less in those cases in which the capital invested was increased in successive transactions, on the other hand in this tax on the *increases* of property the original property is always fixed; equal, that is, to the capital invested in the first taxation period. It makes no difference therefore if the taxpayer who had an original invested capital of 1,500,000 has increased it to 5,000,000 or 10,000,000; the sum of profits obtained is always compared with the original capital of 1,500,000 lire in applying the rates of the tax.

That is doubtless a mistake; but it is clear that the legislator's object was mainly to establish a tax that could be applied at once and without trouble, by merely turning to the excess profits already ascertained for the purpose of the war profits tax, subtracting from them the various taxes and public burdens already paid, and levying on the residue.

If by this means a quick application of the tax was obtained, the requirements of justice for the taxpayer

were not satisfied. Complaints will be made by many taxpayers, especially small ones. Popular opinion will continue to insist that the Finance Department is incapable of properly taxing the war profits. The general public, which pays little attention to legislative technicalities, cannot understand the reasons for taxation on the basis of per cents on the capital invested and on the original property. It looks upon fortunes as a whole and wishes that those who have made little should be taxed lightly and those who have made much should be taxed heavily.

It should be noted finally that the tax on the increases of property, like that on the excess profits of war, to which it is a mere addition, has no personal character. It does not fall upon individual taxpayers but on enterprises that produce income. It does not regard the increase in property obtained by individuals, but that obtained by manufacturers, merchants and brokers. Therefore if a business man carries on his business alone, he is taxed on the increase in property which he has really gained. On the other hand, if a business is conducted by a joint stock company, it is the company that pays the tax and not the partners. Hence it will happen that the holder of a small part of the capital of a corporation, whose property may be increased by a very small sum, may have to pay the same percentage as one who owns a great part of the capital. This is a defect common to several acts of legislation regarding the taxation of the excessive war profits.

III. THE TAX ON PROPERTY ACCORDING TO THE PLAN OF NOVEMBER, 1919

We come now to the more important tax, the extraordinary tax on property properly so called.

The decree of November 24 differed from the plan of September, 1919, in that it substituted for an extraordinary tax, paid once for all on January 1, 1920, or distributed for convenience in payment over 4, 6, or 8 years, a wholly different tax, to which the term extraordinary could not properly be applied.

In reality it was made a matter of annual taxes continuing for thirty years, payable at progressive rates ranging from 0.167 per cent for properties of 20,000 lire to 0.833 per cent for properties of 100,000,000 lire and more. In substance it was a permanent, supplementary tax on property, which performed the same function as that which taxes on property (*Ergänzungssteuern*) had exercised, even before the war, in most of the German states. The supplementary tax on income instituted at the same time (November 24, 1919, to take effect on January 1, 1921) applied, in theory, to all income of the taxpayer, without making a difference between the portion of the income that was derived from capital and the portion derived from labor; and the tax on property proposed in November, was virtually a permanent readjustment of the income tax, having for its object the imposition of an additional burden of taxation on incomes derived from capital. It is true that Article 29 of the decree of November 24 said that the tax was extraordinary and due once only, in the ratio of 5 per cent for properties of 20,000 lire up to 25 per cent for properties of 100,000,000 lire and more. But as the rate, the

nominally single, was divided into thirty equal annual payments, without the addition of interest for the postponement, what was really proposed was the imposition of a permanent extraordinary tax, payable from the income of the property. It was very doubtful if a tax thus arranged would really end at the close of the thirtieth year. This was a mere promise, like so many others made by legislators when a tax is introduced for the first time.

The only trace of "extraordinary" character in the tax on property of November 24, was a vague promise made in Article 46, announcing a future decree, to be issued by the Minister of Finance, to authorize the redemption of the tax on property. But the article itself limited the redemption to each of the four periods of 6, 8, 8 and 8 years into which the thirty year period was divided. The taxpayer therefore did not have the choice of paying once for all the amount of the tax on property for the thirty years, as would have been logical if the tax had really had the character of an extraordinary levy on capital, but had only a power of redemption restricted to each one of the four periods. So that the taxpayer might in the first year redeem (pay in full) the tax for the first six years, in the seventh year the tax due for the second period of eight years, and so for the succeeding periods.

Those who fought for the establishment of an extraordinary tax on property criticized severely the decree of November 24, 1919, as soon as it was made public, asserting that the tax established by this decree was wholly different from that which the government had announced before. The present writer never favored a levy on capital, properly so called, and therefore cannot agree with the criticisms made on the decree of November 24, on this subject. What seemed a defect to the

critics, was in reality a good feature. Tho the immediate returns from the tax might be smaller, the final and permanent returns would in the long run become important; and the establishment of an integral tax on property is necessary in the new system of taxation in which, in addition to the differentiated taxes, a tax is established on the total income of the tax payer, with no distinction on account of the nature of the income.

IV. THE TAX ON PROPERTY IN ITS PRESENT FORM

General Characteristics

Altho the criticisms made against the plan of November 24 were of little weight, they finally became so strong that the Italian government was obliged to modify the system first established, even before it went into effect. In the decree of April 22, 1920, the basis of taxation was changed in a marked manner, reverting in part to the original idea of the plan of September, 1919, of an extraordinary tax on property possessed by the taxpayer on January 1, 1920. Let us now examine the arrangements of this decree, which, at the moment that I am writing, is the basis of taxation.

The tax then has become again a true extraordinary tax to be levied on property, which has been valued once for all on January 1, 1920. With the object of making the payment easier for the taxpayers, the amount of the tax is divided regularly into 20 annual payments, as may be seen in the following table. On account of strong complaints by the most influential political parties, the exempt limit was raised from 20,000 lire to 50,000 lire.

The amount of the tax (to be paid within twenty years) is determined on the basis of the following scale:

On	50,000 lire,	4.50%	in all, at the rate of	0.225%	a year		
"	100,000 "	5.61%	" " " " " "	0.280%	" "	" "	" "
"	200,000 "	6.98%	" " " " " "	0.349%	" "	" "	" "
"	500,000 "	9.33%	" " " " " "	0.467%	" "	" "	" "
"	1,000,000 "	11.62%	" " " " " "	0.581%	" "	" "	" "
"	2,000,000 "	14.48%	" " " " " "	0.724%	" "	" "	" "
"	5,000,000 "	19.36%	" " " " " "	0.968%	" "	" "	" "
"	10,000,000 "	24.11%	" " " " " "	1.205%	" "	" "	" "
"	20,000,000 "	30.03%	" " " " " "	1.501%	" "	" "	" "
"	50,000,000 "	40.14%	" " " " " "	2.007%	" "	" "	" "
"	100,000,000 "	and more, 50%,	" " " " " "	2.500%	" "	" "	" "

For properties between 50,000 and 100,000 lire, that are taxable, fractions of a thousand lire up to 500 lire inclusive are neglected; those above 500 lire are rounded out to 1,000 lire. In like manner for those higher than 100,000 and up to 200,000 lire, the rounding process is by units of 2,000 lire:

Above	200,000 to	500,000	by units of	5,000
"	500,000 "	1,000,000	" " "	10,000
"	1,000,000 "	2,000,000	" " "	20,000
"	2,000,000 "	5,000,000	" " "	50,000
"	5,000,000 "	10,000,000	" " "	100,000
"	10,000,000 "	20,000,000	" " "	200,000
"	20,000,000 "	50,000,000	" " "	500,000
"	50,000,000		" " "	1,000,000

In explanation of the scale of the tax, it should be said that the properties indicated above are used merely as examples. The government has published a table covering each intermediate property, between the figures used above, taking into account likewise the roundings off.

The ratios falling on intermediate properties have been calculated according to the formula given; so that the increases in the scale of ratios appear without noticeable leaps. From the technical point of view the system adopted is good, and represents a notable improvement when compared with other methods of graduating taxes.

At first sight the substitution of twenty for thirty years does not seem to transform the permanent tax on property of the decree of the 24th of November into a true extraordinary tax or levy on capital; but that there is a real alteration in that direction is deduced from several considerations:

1. The twenty year period is that ordinarily imposed. But if it turns out that the property consists, to the extent of at least 60 per cent, of personal property, the tax must be paid within ten years instead of twenty, the taxpayer being allowed interest at 5 per cent. Thus there will be two classes of taxpayers; those whose property consists chiefly of lands and houses, who will pay in twenty years, and this on account of the greater difficulty of disposing of their lands and houses; and those whose property chiefly consists of personalty (public securities, shares and bonds of companies, merchandise, credits) who are obliged to pay the tax within ten years;

2. There is no longer any revision of properties or distinction of periods. The basis of taxation is fixed for the entire period of twenty years, and that basis is the property on January 1, 1920. Consequently, if a taxpayer should die, his heirs will continue to pay a proportionate part of the tax of the deceased, and there will be no addition of the sum inherited to the properties of the heirs;

3. As the taxable basis remains fixed, the tax may be redeemed, and Article 46 distinctly authorizes redemption, crediting the taxpayer with compound interest at the rate of 6 per cent a year for the number of years for which payment is anticipated.

The redemption of the tax may take place at once, or at any moment in the periods of twenty or of ten years.

Subject and Object of the Tax

In principle the tax is payable by individuals and by collective bodies. But the taxation of corporations, commercial societies, and other bodies takes place only in those cases where the property cannot be divided among the shareholders or other participants. Thus for example the tax does not apply to societies having shares, but instead the shareholders are subject to it for the shares that they possess. Partnerships and the like must also declare their property, but only with the object of informing the financial authorities of the value of the individual amounts belonging to the partners, each one of whom will be taxed separately. The society or partnership is obliged to pay the tax only when the individual has become insolvent. Exempt from the tax are all public bodies: the Italian state, the administrations dependent on the state, foreign states, the provinces, the communes and municipalities, consortiums and other public organizations, charitable and educational institutions. A few collective bodies, like savings banks and agricultural banks are subject to direct taxation. It would have been impossible to apply to these the progressive ratio explained above, inasmuch as the taxpayer lacks the characteristic of a person enjoying an income; therefore the tax was fixed at the rate of 0.80 per cent a year for twenty years. The same plan (except that the rate, 1.20 per cent a year, is greater) applies to foreign societies operating in Italy as regards that portion of their property that cannot be allocated among the individual partners or shareholders of the society.

The payers of the extraordinary tax on property are exclusively individuals. The tax, in contradistinction to that imposed at the same time by the income tax falls

upon the individual and not upon families; i. e., the property of the husband is not added to that of the wife. On the other hand, that of parents and other ascendants is added to that of sons and of descendants, but only when the sons and the descendants live together with their parents and have in common with them labor and the enjoyment of property; and further, for that part only of the property of the children or descendants which has been given or sold to these, after August 1, 1914, by the parents or ascendants themselves. The children are taxed personally and separately for whatever property they may have received by inheritance or gift from other persons, and for that which they have accumulated by their own earnings. The dowry of the wife is considered as a part of the property of the wife herself and is taxed separately from the property of the husband.

There is a difference in the taxation of citizens and of foreigners. The citizen owes taxes on all his property situated within the state, and also on all property situated outside the state which has been acquired by him since August 1, 1914. The Italian citizen is exempt, whether he dwells in Italy or in foreign parts, on that portion of his property which consists of property possessed in foreign countries before the outbreak of the European war. The reasons for this exemption are, in the first place, not to interfere with Italian emigration to foreign lands; and, in the second place, the very great difficulty which the financial authorities would have had in finding out what the properties outside of the state amounted to.

But property possessed by the citizen in foreign lands is subject to the tax, if acquired after the outbreak of the war. Italian citizens residing in foreign lands enjoy a further exemption, namely, on the remittances which

they, as emigrants, had sent to Italy, depositing them in banks and postal savings banks, or investing them in Italian War Loans for which they had subscribed abroad. It should be noted that in the property existing outside of the state, foreign securities possessed by a citizen residing within the kingdom are not included. These foreign securities, by a presumption of law, are considered as being held within the state, when owned by a citizen dwelling within the kingdom; they are therefore subject to the tax, even if they were owned before August 1, 1914.

The foreigner, on the other hand, in principle is taxed exclusively on property situated within the state. Exception to this rule is made as regards Italian War Loans subscribed for by foreigners not residents of Italy. These are not subject to tax; neither are foreign securities subject to tax, if they are possessed by a foreigner dwelling within the kingdom; nor is floating capital which is foreign or comes from foreign lands and which on January 1, 1920 was deposited in institutions of credit and postal savings banks.

To the principle of the universality of taxation there are the following further exceptions:

1. Capital sums corresponding to life or temporary incomes, or those owed by organizations established for protection against sickness, old age and disability, are not regarded as taxable elements in property. In reality a life annuity has a present value, and should be taken into account in determining the amount of the property; but these were exempted from the tax because enjoyed in the great majority of cases by people in moderate circumstances. Similarly the redemption value of the sums for which a man's life is insured is exempt from the tax. It happens therefore, in the case of two professional men who have saved the same sum of

money, one of whom has invested it in lands, houses, and securities, while the other has bought a life insurance, that the first is subject to the tax while the second is exempt. The only argument in justification is that in Italy the average of the sums for which life is insured is very low, and that in most cases the insured taxpayers do not possess property amounting in all to 50,000 lire.

2. Churches and all buildings intended for religious purposes, with the furniture, sacred utensils and any other object relating to the church.

3. Scientific collections, libraries, collections of paintings, statues, porcelains, engravings, coins, medals and similar objects.

This last exemption, however, does not apply to merchants who possess books, or pictures, or statues with the intention of trading in them. The exemption also does not apply to taxpayers who may be presumed to have acquired their collection through profits made during the war period. Not exempt are collections of gems, jewels, gold and silver vessels and utensils, intended for private use.

Valuation

The two chief difficulties found in Italy in the taxation of property are those arising from the valuation of lands and of buildings, and those involved in establishing the ownership of bearer certificates. As regards lands and buildings there is no difficulty in ascertaining ownership, because the several proprietors are known already from the registers of the taxes on lands and on buildings. Great difficulty is found however in the valuation of the lands and the buildings. If the obligation had been put on all owners of lands and buildings to declare their market value, it would have been necessary to control these declarations; the Finance Department would have been

obliged to set up a system of estimates. The experience gained under the law of March 1, 1886, for the equalization of the land tax, proved this to be a very costly and complicated task. Several years would have to pass before the estimates of the value of land and of buildings could be made, and in the interval it would be impossible to collect the tax. For these reasons the decree of April 22, 1920, distinguishes between a provisional and an ultimate valuation. The provisional valuation, to be made at once, is based entirely on empirical data. The capital value of a farm is obtained by multiplying the chief tax paid to the state in 1916 by the fixed coefficient 325. The capital value of buildings is also obtained by multiplying by a fixed coefficient (25) the taxable income ascertained in 1919 for the purpose of the building tax. In the greater part of Italy this empirical method will bring about valuations markedly below the true valuation, especially in the case of land. It is to be hoped that the Financial Administration, as is prescribed by Article 10, may carry out the ultimate valuation within five years, that is to say, by December 31, 1924. This final valuation is to be made according to the method proposed in the plan of September, 1919, namely, capitalization at the rate of 100 to 5 of the net income. Exceptions are made only in case of forests, areas that can be built on, buildings in the course of construction, castles and villas; for all of which, instead, the market value on January 1, 1920, is taken as the basis of taxation. The valuation of farms will not include the value of the agricultural equipment (animals for working and for rearing, agricultural machinery, hay, straw, seed) which are valued at the market value they had at the beginning of the agricultural year 1919-20.

For industrial and commercial enterprises the same method is applied as for lands and buildings, namely,

capitalization of the net income; but while the net income of lands and buildings is capitalized at the ratio of 100 to 5, the net income of industrial and commercial enterprises is capitalized at ratios ranging between 100 to 10 and 100 to 30. The valuation will approach closer to the minimum when the element of labor is predominant in the enterprise, and will approach closer to the maximum when the element of capital is the more important.

In all industrial and commercial undertakings the criterion of capitalization is merely one of those which may be taken into account for the valuation of the capital; another criterion is that of the capital invested, already ascertained for the purpose of the tax on war profits. As the tax on war profits fell on profits exceeding 8 per cent of the capital invested, it was for the interest of the taxpayers in the past years to declare the whole amount of capital invested, for the purpose of diminishing as much as was possible the percentage of their earning in proportion to the capital. Now they suffer, as it were, a penalty for the claim made before; because the more they tried to increase the figures of capital invested, so as to pay a lesser tax on war profits, so much the more will they be burdened by the tax on property.

For securities consisting of certificates of loans to the state, of Treasury bonds, of loan certificates issued by provinces, communes, or land credit societies, the difficulty lies not in the valuation but in ascertaining the ownership, at least as regards bearer certificates. With regard to valuation it is simply provided that, for securities issued or guaranteed by the state, the average of the prices paid in the first six months of 1919 shall be considered the basis. For private securities, the average of the prices paid in the exchanges in the six months from

April to September, 1919 is taken. As regards securities not quoted on the exchanges, the price obtained at any sale that is known to have taken place in the same six months is taken into account, as well as any other means of ascertaining the value. For foreign securities held by an Italian citizen, he must declare the value which he assigns to them, but the Administration has the right to call for them at that price up to the amount of the tax due.

There are no unsurmountable difficulties in the valuation of securities; the real and great difficulty lies in finding who are the possessors of bearer certificates.

The plan of September, 1919, had attempted to solve the problem by subjecting bearer certificates to the maximum rate of 40 per cent, so as to give a direct interest to holders of the securities to convert them into certificates registered in the holder's name; thus they would be exempt from the tax, if the property was less than 20,000 lire, and would pay the regular increasing ratio from 5 per cent to 40 per cent, if the property was between 20,000 and 100,000,000 lire.

More effective proved to be another method contained in the decree of November, 1919 which utilized an already existing tax on dividends, interests, and the like. As modified in 1918, this tax had exacted 2 per cent from these dividends and interests, whether on bearer certificates or registered; it made no distinction between the two classes of securities. The tax itself, having the character of an extraordinary war tax, was limited to incomes returned from the balances closed in 1919. The decree of November, 1919, extended the tax to the years following 1919, but changed its character greatly, inasmuch as, beginning with the balances closed after November 24, 1919, it increased the tax from 2 per cent to 5 per cent, limiting it at the same time to the

dividends, interests, and premiums on bearer certificates and exempting those registered. Clearly it was for the interest of all taxpayers possessing a moderate property to register their securities under their names, in order not to pay this tax of 5 per cent; thereby giving the Finance Department the means of ascertaining their property exactly, for the purposes of the tax on property. The motive to register was increased also by the decree of April, 1920, which finally raised the tax from 5 per cent to 15 per cent. As the public bodies and companies issuing the securities are obliged to recoup themselves for this 15 per cent tax on the holders of the securities, and as there is in Italy another tax, called "*di negoziazione*" which subjects the effective capital of securities registered by name to a levy of 2 in a thousand, while the rate for bearer certificates is 3.50 per thousand, those who have their securities in the bearer form are subject to a double differential tax. This double burden is not substituted for that on property, inasmuch as the obligation to pay the special tax of 15 per cent on income and 1.5 per cent additional on capital for bearer certificates may be called optional; only those have to pay it who cling to their bearer certificates. This tax gives a strong impetus to the transformation of securities into the registered form, and therefore into an exact declaration of the amount of property subject to the property tax.

Allowance for Debts

Logically property subject to tax is not the gross property or sum of all the assets belonging to the taxpayer, but is equal to this less the sum of the debts. The taxpayer has the right to deduct the amount of all his debts. There are some exceptions to this rule; for example, indebtedness on such property as is not

taken into account in making up the gross property. Thus, as the taxpayer does not have to include among his assets the amount of the present value of his life insurance, he cannot include among his debts the amount of the loan he may have obtained on the security of his life policy. Likewise debts to creditors who are unknown, or dwell outside the state, cannot be deducted; this is to prevent fraud through the declaration of fictitious indebtedness. Still when a debt to a foreigner is verified, the taxpayer will have the right to deduct it from his property, but the debt itself will be regarded as property by itself; the tax will be put down in the name of the debtor, but he will have the right to recoup himself on the foreign creditor. In case the creditor does not admit the taxpayer's declared indebtedness to him, the subtraction from the debtor's property is not allowed; on the other hand the judicial record of the debt is treated as non-existent, even between the two interested parties, and proof to the contrary is not admitted.

In the deductible indebtedness are included the capitalized value of perpetual annuities and emphitheutic obligations as well as capital corresponding to temporary and life incomes, although these are not included among the assets of the creditor; deductible also are the imposts and taxes which the taxpayer had to meet on January 1, 1920, chief among which are those on excess war profits and increases in property. For the first, in very many cases, the liquidation for 1917, 1918, and 1919 has not yet been made; for the second no liquidation at all had been made when the law taxing property went into effect; thus, the taxpayer has the right to deduct from his gross property the amount, which may be large, of these two taxes.

Presumptive Valuations

Having determined the net property of the taxpayer, and subtracted all the debits that belong to it, a presumptive addition must now be made. It seemed difficult to value exactly all house furnishings and jewelry, as well as the money or cash in hand possessed by the taxpayers. The decree of April 22, as well as the preceding one, orders that a supplement of 5 per cent shall be added to the net property of the taxpayer to represent house furnishings, silver and jewels, and one of 1 per cent representing cash. The two percentages, however, are only a minimum, and the taxpayer must declare any larger sum he may possess in cash, while the Financial Administration, if it has sufficient evidence, may increase the valuation of the house furnishings. For a foreigner, domiciled in a foreign land, the ratio for house furnishings is only added in case he really possesses furniture; in that case the value is presumed to be 3 per cent of the amount of the net property.

A provision not contained in the decree of November 24, 1919, but derived from a like arrangement in the plan of September, 1919, is found in the decree of April 22, 1920: it may be called valuation on appearances. It may happen that a taxpayer declares a property smaller than would be logically presumed to be possessed by him, taking into account his manner of life and his known expenses. For example: a taxpayer has declared a property of only 100,000 lire, and the Financial Administration cannot discover that he has any larger property by the method of ascertaining his individual property assets. Yet it is evident that the taxpayer pays a rent much higher than would be reasonable on the basis of his declared property; it is evident that he leads an expensive life, has several servants, hires auto-

mobiles, and spends sums much higher than warranted by the property he has declared; nor does it appear on the other hand that he has a professional income that enables him to lead a luxurious life. The Financial Administration may then assume, in virtue of Article 29, that the taxpayer's property is larger than he has declared. It is for the courts to decide what the real property of the taxpayer is.

Declaration, Procedure, Payment, and Redemption

The decree of April 22 establishes, as a foundation of the whole procedure, the obligation of the taxpayer, or whoever represents him, to declare the amount of his property by May 31, 1920. The obligation to make a declaration regarding personal incomes and buildings was familiar to Italy from the time of the first fundamental laws of 1864 and 1865. But it had fallen into disuse; for many years no Italian taxpayer had made a declaration of income of his own accord. They always waited for the financial authorities to make an assessment, and then accepted this or contested it. If, some years ago, a revenue official had seen a taxpayer enter his office to present an income return of his own accord he would have considered him a lunatic, or at least an eccentric who observed the law when nobody dreamed of asking him to observe it. It was the world war which again introduced into our country the institution of the declaration. Taxpayers subject to the tax on excess war profits were obliged to present a declaration. At first, few believed that the financial authorities were in earnest; but after fines were inflicted on those who did not comply, little by little the habit of making declarations was reestablished. This obligation is restricted to a limited category of persons, namely, manufacturers,

merchants and brokers, subject to the tax on excess profits. Now the obligation is put on all who possess a property of at least 50,000 lire; a rather extensive class of persons. It is calculated that in the great cities of the north, such as Turin and Milan, about 4 per cent of the population presented the schedule with a declaration of their property. The work of revising the declaration made by the taxpayers is carried out by the Financial Administration. The taxpayer has the right of appealing from the valuation as revised, according to the procedure established for the tax on incomes from personal property.

Both the Administration and the judicial authorities have the right to place the taxpayer on oath regarding the truth of his declaration. The oath is not obligatory: it may be passed over by the Administration in the cases where it assumes that the taxpayer has declared the truth. The oath does not apply to the valuation of the property when there can be a reasonable difference of opinion between the taxpayer and the Administration. It refers solely to the declaration concerning the quality and quantity of the property belonging to the taxpayer, and to the existence of debts and burdens in regard to it.

The tax is paid, during the ten or twenty years that it lasts, in the usual manner in which direct taxes on incomes are paid in Italy, namely in six annual payments. The payment may be made in lawful money, in Treasury notes discounted to the day of payment, in certificates of the public debt and in long-term Treasury notes, in postal orders, in bank notes, and in certificates of credit of institutions that can issue them.

The taxpayer who wishes to dispose of the tax at once may redeem it on the basis of compound discount at 6 per cent. The discount may be asked for at the outset or at a later period.

The system of redemption is the same in substance as those of delayed interest occurring in similar laws, like the German law. The real burden is not that resulting from the rates above mentioned, but is given in the actual value of the 10 or 20 years of taxes discounted at the rate of 6 per cent. The maximum rate of 50 per cent (on properties of 100,000,000 lire) consists in reality of twenty annual payments of 2.50 per cent; the present value of these twenty annual payments compounded at the rate of 6 per cent a year is 28.67 per cent. The taxpayer, possessing 100,000,000 lire, has therefore a choice between paying 2,500,000 lire a year for twenty years, and paying immediately 28,674,803 lire.

It is doubtful if many taxpayers will take advantage of this right of redemption. Two circumstances stand in the way. In the first place, there is the wish not to let the Financial Department know the amount of money at their disposal. Many probably have the impression that if they pay at once they run the risk of being believed to be richer than they really are. In the second place, in order to be redeemed, the tax must be definitely settled. It is true that whoever asks for the redemption of the tax has the right to call for a definite valuation of lands and buildings. But the settlement of the serious questions which will arise with every declaration will require a long time. But seldom can a taxpayer obtain a definite statement of the tax owed by him until several years have passed.

Besides the right to ask for redemption at any moment, the taxpayer has also the right to ask for the shortening of the period for paying the tax. For instance he may ask that the tax which is due from him in ten or twenty years shall be paid in five or ten years; and in these cases also he will be entitled to the discount for the shortened time at the rate of 6 per cent compound interest.

Penalties

Italian legislation, from the time of the fundamental laws of 1864 and 1865,* did not lack severe measures by which to punish the taxpayer guilty of omissions or of dishonest declarations. But in the case of penalties as in that of declarations, lack of enforcement had rendered these measures inefficacious.

Here, too, the war introduced into Italy severe measures which were applied in not a few cases. Persons taxed for the excess war profits were not infrequently made to pay serious fines for dishonest and incomplete declarations. The decree of April 22 now threatens various penalties for taxpayers who violate the law; I shall mention only the chief ones. Whoever omits to present the declaration of property, or delays in presenting it, is subject to a pecuniary penalty amounting to $\frac{1}{8}$ of the tax finally fixed on the property. Whoever presents a declaration which is wholly or partly untruthful incurs a pecuniary penalty equal to $\frac{1}{4}$ of the tax of which the Treasury would have been defrauded. This penalty, however, is not applied when the tax of which the Treasury would have been defrauded is not more than $\frac{1}{6}$ of the tax due. Whenever the taxpayer refuses to sign the oath put to him, or does not present himself at the time assigned, he is subject to a pecuniary penalty equal to $\frac{1}{4}$ of the tax. These are the chief pecuniary penalties. Besides there is the possibility of confiscation of a sum equal to the amount of property withdrawn from what is due for taxation, when the taxpayer has taken a false oath or has had recourse to acts meant deliberately to defraud the state. This last penalty, however, can be inflicted only by the ordinary courts of law. An interesting detail regarding pecuniary penalties, which deserves to be recorded, is contained in

Article 53, which forbids the remission or reduction of pecuniary penalties save by legislative enactment. The reason for this is to prevent the executive power from weakening the force of the penalties against non-compliers by reducing or excusing the penalties through political influence. To make even more sure that the penalties are levied effectively, Article 52 provides that the amount obtained from them shall be paid, one-third to the public Treasury, one-third to the National Bank for Social Insurance, and the last third to the National Relief for those who fought in the war. Thus important interests are created in public bodies to see that there is a strict and severe application of the pecuniary penalties.

I have fulfilled the task of relating briefly the vicissitudes of the legislative provisions referring to the tax. But it is not entirely certain whether this is the final form the legislation will take before it is put in operation. The decree of April 22, 1920, must yet be discussed in Parliament, which may make more or less important modifications in it. Nevertheless, the decree, having been proclaimed when Parliament was not in session, is in force now and has begun to be applied. On May 31, (or rather on June 10, 1920, on account of a brief postponement granted at the last moment) the taxpayers were obliged to present their declarations and the process of revision has already begun. It is probable therefore that, in order not to interrupt the work begun, the modifications introduced in Parliament will not be vital, all the more because it is improbable that the sessions of Parliament will be long and such as to admit of a long discussion of this problem.

LUIGI EINAUDI.

UNIVERSITY OF TURIN.